

**SOUTH UTAH VALLEY ANIMAL SERVICES
SPECIAL SERVICE DISTRICT**

**Financial Statements
and
Accountants' Review Report**

June 30, 2006

Hansen, Bradshaw, Malmrose & Erickson

A Professional Corporation
CERTIFIED PUBLIC ACCOUNTANTS

SOUTH UTAH VALLEY ANIMAL SERVICES SPECIAL SERVICE DISTRICT

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ACCOUNTANTS' REVIEW REPORT

Administrative Control Board
South Utah Valley Animal Services Special Service District

We have reviewed the accompanying statement of net assets of South Utah Valley Animal Services Special Service District as of June 30, 2006, and the related statements of revenues, expenses and changes in net assets and cash flows for the six months then ended, and the management's discussion and analysis included herein, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of South Utah Valley Animal Services Special Service District.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. A review is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements and the management's discussion and analysis in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Hansen, Bradshaw, Malmrose & Erickson, P.C.

October 5, 2006

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Management's Discussion and Analysis

The discussion of the Utah Valley Animal Services Special Service District's (District) financial performance provides an overview of the financial position for the six months ending June 30, 2006. Please read this analysis in conjunction with our financial statements beginning on page 5.

On January 1, 2006 the District took over operations of the Animal Shelter that was operated by Utah County. The County owns the Animal Shelter and the District is leasing the shelter for \$1 per year for thirty years. Under the lease agreement with the County it states that beginning on July 1, 2006 the District will set aside \$15,000 a year in an equipment reserve fund. It also states in the lease that tenant contributions will increase 2% per year. Expenditures that the District incurs for maintenance of the building and equipment during the year may be deducted from the balance in the equipment reserve fund.

The purpose of the District is to provide animal services for member cities and citizens that live within the District boundaries.

Financial Highlights

Net Assets increased by \$86,491 in 2006.

Current ratio: 5.56 to 1.

Net cash provided by operations \$95,864.

Revenues exceeded the budget by \$14,532.

Expenses were \$20,504 less than the budget.

Overview of Financial Statements

The management discussion and analysis are intended to serve as an introduction to the District's financial statements. The District maintains only one type of fund, which is an enterprise fund. An enterprise fund is used to account for operations in a manner similar to a private business. The District's financial statements are comprised of the following four components: 1) statement of net assets, 2) statement of revenues, expenses and changes in net assets, 3) statement of cash flows, and 4) notes to the financial statements. The financial statements and notes demonstrate the overall financial performance of the District and are prepared using the accrual basis of accounting.

Statement of Net Assets

The Statement of Net Assets (page 5) shows the assets, liabilities and net assets of the District as of June 30, 2006. Assets are divided into current and long-term assets to reflect the liquidity of the assets. Property and equipment include land, buildings and machinery that are used in connection with the District operations. Current liabilities

include all debts and obligations owed by the District to outside creditors, vendors or banks that are payable within one year. Long-term debt includes debts or obligations owed by the District that are due more than one year out from the current date. Net assets are shown in two components: 1) the amount restricted for spay and neuters and 2) unrestricted net assets. The following provides explanation for the restriction in net assets:

The District collects fees from the public for animals to be altered (spayed or neutered) by participating veterinarians. When someone does not follow through and have their animal altered the District receives revenue for which there is no offsetting expense. Since these funds were collected for the purpose of the animal being altered the funds are restricted for that purpose.

Unrestricted net assets are the residual components of net assets.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets (page 6) shows the District's income and expenses from January 1, 2006 to June 30, 2006.

Statement of Cash Flows

That Statement of Cash Flows (page 7) shows a summary of the District's cash receipts and disbursements from operating, financing and investing activities from January 1, 2006 to June 30, 2006.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the District's financial statements.

Capital Assets

The District's capital assets comprise of equipment and furniture that was purchased from Utah County at beginning of January. The following is a schedule with the cost, useful lives and accumulated depreciation:

	Useful life	
Office furniture	7	\$ 16,012
Veterinary equipment	5	<u>4,207</u>
		20,219
Less accumulated depreciation		<u>(1,564)</u>
		<u>\$ 18,655</u>

Long-term Debt

The District borrowed \$26,800 from the Utah County for purchase of equipment, furniture and supplies that were in the shelter when the District took over operations on January 1, 2006. The note is non-interest bearing and will be offset from future animal shelter charges incurred by the County.

2 to
2/24/06

Budget to Actual Comparison

	Actual	Budget	Difference
Revenue	\$247,649	\$233,117	\$ 14,532
Operating Expenses	<u>163,195</u>	<u>183,699</u>	<u>20,504</u>
Net Operating Income	84,454	49,418	35,036
Net Non-Operating Revenues	<u>2,037</u>	-	<u>2,037</u>
Net Income	<u>\$ 86,491</u>	<u>\$ 49,418</u>	<u>\$ 37,073</u>

The Future of the District

The financial status of the District is stable for the foreseeable future. The District ended 2006 with Net Assets of 86K and reported Net Income of 86K. The District has very little debt and does not have to make market lease payments on the building.

Contacting the District's Executive Director

This financial report is designed to provide a general overview of the financial position and result of operations for the District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the attn: Executive Director, 582 W. 3000 N., Spanish Fork, UT 84660.

SOUTH UTAH VALLEY ANIMAL SERVICES SPECIAL SERVICE DISTRICT
Statement of Net Assets
June 30, 2006

ASSETS

Current assets:		
Cash and cash equivalents	<u>\$104,482</u>	
Total current assets		\$104,482
Capital assets:		
Office furniture and equipment		20,219
Less: Accumulated depreciation	(<u>1,564</u>)	
Net capital assets		<u>18,655</u>
Total assets		<u>123,137</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Current liabilities:		
Accounts payable	6,333	
Payroll and related liabilities	3,484	
Other accrued liabilities	29	
Current portion of note payable	<u>8,933</u>	
Total current liabilities		18,779
Long-term liabilities:		
Note payable	<i>Trail</i> <u>17,867</u>	
Total long-term liabilities		<u>17,867</u>
Total liabilities		<u>36,646</u>
Net assets:		
Restricted for spay and neuter program		11,665
Unrestricted		<u>74,826</u>
Total net assets		<u><u>\$ 86,491</u></u>

See the accountants' review report and the accompanying notes to the financial statements.

SOUTH UTAH VALLEY ANIMAL SERVICES SPECIAL SERVICE DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets
For the Six Months Ended June 30, 2006

Operating revenues:

Service fees - member cities	\$146,620	
Service fees - public	<u>101,029</u>	
Total operating revenues		\$247,649

*50 K
work
08.1.06*

Operating expenses:

Salaries, wages and benefits	61,299	
Repairs and maintenance	10,512	
Supplies	28,589	
Utilities	30,861	
Other operating expenses	<u>31,934</u>	
Total operating expenses		<u>163,195</u>
Net operating income		84,454

Non-operating revenues:

Interest income	<u>2,037</u>	
Total non-operating revenues		<u>2,037</u>

Change in net assets	86,491
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Net assets - beginning of period	<u>---</u>
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Net assets - end of period	<u><u>\$ 86,491</u></u>
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See the accountants' review report and the accompanying notes to the financial statements.

SOUTH UTAH VALLEY ANIMAL SERVICES SPECIAL SERVICE DISTRICT
Statement of Cash Flows
For the Six Months Ended June 30, 2006

Cash flows from operating activities:		
Cash receipts from member cities	\$146,620	
Cash receipts from other customers	101,029	
Cash payments to vendors	(93,970)	
Cash payments to employees for services and benefits	(57,815)	
Net cash provided by operating activities		\$ 95,864
Cash flows from capital and related financing activities:		
Increase in note payable for supplies purchased	<u>6,581</u>	
Net cash provided by capital and related financing activities		6,581
Cash flows from investing activities:		
Interest income		<u>2,037</u>
Net increase in cash and cash equivalents		104,482
Cash and cash equivalents - beginning of period		<u>---</u>
Cash and cash equivalents - end of period		<u><u>\$104,482</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income		\$ 84,454
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,564	
Increase in accounts payable	6,333	
Increase in accrued liabilities	<u>3,513</u>	
Net adjustments		<u>11,410</u>
Net cash provided by operating activities		<u><u>\$ 95,864</u></u>
Noncash capital and related financing activities		
Capital assets acquired for note payable	<u>\$20,219</u>	

See the accountants' review report and the accompanying notes to the financial statements.

SOUTH UTAH VALLEY ANIMAL SERVICES SPECIAL SERVICE DISTRICT
Notes to the Financial Statements
For the Six Months Ended June 30, 2006

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

South Utah Valley Animal Services Special Service District (hereafter referred to as the District) is a political subdivision of the State of Utah, created in 2003 pursuant to Title 17A of the Utah Code. The District provides animal control and animal shelter services to residents of Southern Utah County, Utah. The District is governed by an elected administrative control board. Administrative, financial and budgetary responsibilities are vested in the executive director who is a full-time employee of the District. All of the services provided by the District and the activities and funds that are financially accountable to the District as defined by GASB Statement 14 are included in the financial statements.

Financial Reporting Model

The District has implemented the financial reporting model required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

Measurement Focus and Basis of Accounting

The District is an enterprise fund which is reported using the economic resources measurement focus and the accrual basis of accounting. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Revenues are recognized when they are earned, expenses are recognized when a liability is incurred, regardless of the timing of related cash flows.

The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

SOUTH UTAH VALLEY ANIMAL SERVICES SPECIAL SERVICE DISTRICT
Notes to the Financial Statements (Continued)
For the Six Months Ended June 30, 2006

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES(CONTINUED)

Sources of Revenue

The District receives revenues from fees levied on its nine member cities. Additional revenues are provided through service charges and fees charged to the general public.

Use of Estimates

Presenting financial statements in conformity with generally accepted accounting principles requires management to make certain estimates concerning assets, liabilities, revenues and expenses. Actual results may vary from these estimates.

Property Equipment and Depreciation

Purchased property and equipment are recorded at cost and donated items are recorded at their estimated fair value. All assets are depreciated using the straight-line basis over the following estimated useful lives:

Office equipment

5 - 7 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. When material, interest incurred during the construction phase of fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Income Taxes

The District is exempt from all federal and state taxation in its capacity as a political subdivision created by Utah State law.

SOUTH UTAH VALLEY ANIMAL SERVICES SPECIAL SERVICE DISTRICT
Notes to the Financial Statements (Continued)
For the Six Months Ended June 30, 2006

2. DEPOSITS AND INVESTMENTS

Deposits and investments for the District are governed by the Utah Money Management Act (Utah Code Annotated, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the District's exposure to various risks related to its cash management activities.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be recovered. The District's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the District to be in a qualified depository, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Council. As of June 30, 2006, all of the District's bank balance of \$8,743 was insured and uncollateralized.

Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The District's policy for limiting the credit risk of investments is to comply with the Money Management Act.

The District is authorized to invest in the Utah Public Treasurer's Investment fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participant's average daily balances. * 50/0

For the period ended June 30, 2006, the District had investments of \$102,032 with the PTIF. The entire balance had a maturity less than one year. The PTIF pool has not been rated.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair value by investing mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

SOUTH UTAH VALLEY ANIMAL SERVICES SPECIAL SERVICE DISTRICT
Notes to the Financial Statements (Continued)
For the Six Months Ended June 30, 2006

3. PROPERTY AND EQUIPMENT

Changes in property and equipment consist of the following:

	<u>Balance at</u> <u>1/1/06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>6/30/06</u>
Office equipment	\$ ---	\$20,219	\$ ---	\$20,219
Total	---	<u>\$20,219</u>	<u>\$ ---</u>	20,219
Less: accumulated depreciation	---			(1,564)
Net property and equipment	<u>\$ ---</u>			<u>\$18,655</u>

4. LONG-TERM DEBT

Effective January 1, 2006 the District entered into a long-term note payable obligation with Utah County, which is secured by equipment and supplies purchased. The note is non-interest bearing and will be offset from future animal shelter charges incurred by the County for the unincorporated area of the County within the District's boundaries.

<u>Fiscal</u> <u>Year</u> <u>Ended</u>	<u>Interest</u> <u>Rate</u>	<u>Note</u> <u>Principal</u> <u>(Estimated)</u>
6/30/07	0%	\$ 8,933
6/30/08	0%	8,933
6/30/09	0%	8,934
		<u>\$26,800</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Note payable - County	\$ ---	\$26,800	\$ ---	\$26,800	\$8,933
Total	<u>\$ ---</u>	<u>\$26,800</u>	<u>\$ ---</u>	<u>\$26,800</u>	<u>\$8,933</u>

SOUTH UTAH VALLEY ANIMAL SERVICES SPECIAL SERVICE DISTRICT
Notes to the Financial Statements (Continued)
For the Six Months Ended June 30, 2006

5. LEASE OF FACILITIES

Effective January 1, 2006, the District and Utah County entered into an agreement to lease the facilities of the District from the County. The agreement is for a period of thirty years at a rental of \$1 per year.

6. EMPLOYEE RETIREMENT PLANS

Plan Description

The District contributes to the Local Government Noncontributory Retirement System, administered by the Utah Retirement Systems (Systems). The Systems are cost-sharing multiple employer retirement systems providing defined benefits on years of service and highest average salaries.

Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended and which also established the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and Plans. Chapter 49 places the Systems, the Office, and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy

In the Local Government Noncontributory Retirement System, the District is required to contribute 11.09% of eligible employees annual covered salary. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

The District's contributions to the Local Government Noncontributory Retirement System for the period ending June 30, 2006 were \$3,611. The contributions were equal to the required contributions for the period.

SOUTH UTAH VALLEY ANIMAL SERVICES SPECIAL SERVICE DISTRICT
Notes to the Financial Statements (Continued)
For the Six Months Ended June 30, 2006

7. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District has joined with other public entities in a common risk management and insurance program. The District pays premiums to this risk pool, the Utah Local Governments Trust, for its general insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of specified amounts for certain types of risks. The District is subject to a minimal deductible for claims of the risk pool. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.